



May 2023

# DOD FINANCIAL MANAGEMENT

## Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements

# GAO Highlights

Highlights of [GAO-23-105784](#), a report to congressional committees

## Why GAO Did This Study

DOD is responsible for about half of the federal government's discretionary spending. However, DOD remains the only major federal agency that has never been able to receive a clean audit opinion on its financial statements. Since 1995, GAO has designated DOD financial management as high risk because of pervasive deficiencies in its financial management systems, business processes, internal controls, and financial reporting.

House Report 117-88 includes a provision for GAO to review DOD's efforts to achieve a clean audit opinion by 2027. This report examines the (1) status of DOD's efforts to achieve a clean opinion, and benefits of the audits, and (2) extent to which DOD developed plans to address audit findings and achieve a clean opinion.

GAO reviewed relevant DOD and DOD Office of Inspector General reports, as well as memorandums and status reports; interviewed officials; and analyzed NFR data related to DOD's material weaknesses. GAO also assessed DOD and military departments' corrective action plans and roadmaps.

## What GAO Recommends

GAO is making five recommendations, including for DOD to develop and document a comprehensive plan to achieve a clean audit opinion and to consider dependencies and analyze the feasibility of remediation dates in roadmaps. DOD concurred with one recommendation, partially concurred with three, and did not concur with one. GAO maintains that all of the recommendations are warranted.

View [GAO-23-105784](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

May 2023

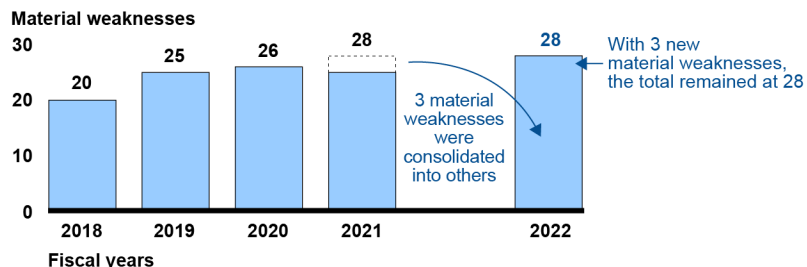
## DOD FINANCIAL MANAGEMENT

### Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements

## What GAO Found

The Department of Defense's (DOD) financial statement audits for fiscal year 2022 and prior years have resulted in disclaimers of opinion—meaning that auditors were unable to obtain sufficient, appropriate evidence to provide a basis for an audit opinion. Fiscal year 2018 was the first year that DOD underwent its full-scope consolidated financial statement audit. For that and each subsequent fiscal year, auditors identified material weaknesses, which are serious deficiencies that affect DOD's financial reporting (see figure). Auditors also issued thousands of notices of findings and recommendations (NFR).

#### Department of Defense Material Weaknesses Identified by Auditors



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

The financial statement audit has value far beyond the audit opinion. It can help to identify vulnerabilities and ways to improve operations. DOD audits have resulted in short- and long-term benefits. The audits helped identify assets that DOD did not know existed. For example, in fiscal year 2020, Navy identified and added nearly \$2.4 billion of unrecorded inventory, operating materials and supplies, and general equipment. These items were subsequently used to fill over 12,000 requisitions, which otherwise would have cost \$50 million in material.

DOD has taken steps to achieve an unmodified (clean) audit opinion—when the auditor finds that financial statements are presented fairly in accordance with U.S. generally accepted accounting principles. These steps include developing audit priority areas, a financial management strategy, corrective action plans, and audit roadmaps. However, GAO found that these DOD plans lack details that are important to achieving a clean audit opinion. For example, DOD's audit roadmaps do not have interim milestone activities and dates to show the steps for reaching overall target remediation goals. Also, DOD's financial management strategy focuses on high-level DOD financial management priorities and is not specific to achieving a clean opinion. A comprehensive plan with a clear DOD-wide vision for how to achieve a clean audit opinion, with detailed procedures for addressing material weaknesses, would help DOD to reach this milestone.

GAO also found that DOD has consistently missed target remediation dates provided in its DOD-wide roadmap. DOD needs to take steps to improve audit roadmaps—including considering dependencies identified by components, analyzing the feasibility of estimated target remediation dates, and reassessing actions as needed. Without these steps, DOD and components will be at increased risk of continuing to miss and extend target remediation dates, further hindering its ability to achieve a clean audit opinion.

---

# Contents

---

---

Letter		1
	Background	4
	DOD Has Not Achieved a Clean Audit Opinion as of September 30, 2022	12
	DOD Has Taken Steps to Address Audit Findings, but Its Plans Are Not Sufficient to Achieve a Clean Audit Opinion	26
	Conclusions	37
	Recommendations for Executive Action	38
	Agency Comments and Our Evaluation	39
Appendix I	Objectives, Scope, and Methodology	43
Appendix II	Comments from the Department of Defense	46
Appendix III	GAO Contact and Staff Acknowledgments	49
Table		
	Table 1: Fiscal Year 2022 Office of Inspector General (OIG) Material Weaknesses Categorized into DOD Material Weakness Areas	15
Figures		
	Figure 1: DOD Financial Management and Audit Readiness Timeline	7
	Figure 2: DOD Financial Statement Preparation Process	11
	Figure 3: DOD Material Weaknesses Identified by Auditors	14
	Figure 4: Percentage of Notices of Findings and Recommendations That Contribute to DOD Material Weaknesses, by Component	16
	Figure 5: Notices of Findings and Recommendations (NFR) Remediation Rate	17
	Figure 6: DOD's Process for Addressing NFRs Issued by Financial Statement Auditors	28
	Figure 7: Development of DOD-Wide Roadmap	30

---

---

---

## Abbreviations

AFR	agency financial report
CAP	corrective action plan
CFO Act	Chief Financial Officers Act of 1990
DAI	Defense Agencies Initiative
DFAS	Defense Finance and Accounting Service
DHS	Department of Homeland Security
DLA	Defense Logistics Agency
DOD	Department of Defense
EDL	environmental and disposal liabilities
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Remediation
FM Strategy	DOD Financial Management Strategy
G-Invoicing	Government Invoicing
IPA	independent public accountant
IT	information technology
JSF	joint strike fighter
NDAA	National Defense Authorization Act
NFR	notice of findings and recommendations
ODCFO	Office of the Deputy Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OUSD	Office of the Under Secretary of Defense

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



May 15, 2023

### Congressional Committees

The Department of Defense (DOD) is responsible for about half of the federal government’s discretionary spending and about 15 percent of its total spending.<sup>1</sup> Sound financial management practices and reliable, useful, and timely financial information are important for ensuring accountability over DOD’s extensive resources, efficiently and effectively managing its assets and budgets, and informing decision-making. However, DOD remains the only major federal agency that has never been able to receive an unmodified audit opinion (also referred to as a clean audit opinion) on its financial statements.<sup>2</sup> Since 1995, GAO has designated DOD financial management as high risk because of pervasive deficiencies in its financial management systems, business processes, internal controls, and financial reporting.<sup>3</sup> These deficiencies have adversely affected DOD’s ability to prepare auditable financial statements, which is one of three major impediments preventing us from expressing an audit opinion on the U.S. government’s consolidated financial statements.<sup>4</sup>

DOD comprises the Office of the Secretary of Defense; Joint Chiefs of Staff; joint staff; combatant commands; military departments (Army, Navy,

---

<sup>1</sup>Discretionary spending refers to outlays from budget authority that are provided in and controlled by appropriation acts, unlike mandatory spending, such as Medicare and other entitlement programs. For fiscal year 2022, DOD reported that it received appropriations of \$1,019.5 billion, approximately \$242.9 billion of which is considered mandatory; the remaining \$776.6 billion is discretionary.

<sup>2</sup>An auditor expresses an unmodified audit opinion (or clean opinion) when the auditor concludes that the financial statements are presented fairly, in accordance with U.S. generally accepted accounting principles.

<sup>3</sup>GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

<sup>4</sup>The three major impediments that have prevented us from expressing an opinion on the federal government’s consolidated financial statements are (1) serious financial management problems at DOD, (2) the federal government’s inability to adequately account for intragovernmental activity and balances between federal entities, and (3) weaknesses in the federal government’s process for preparing its consolidated financial statements. See GAO, *Financial Audit: FY 2022 and FY 2021 Consolidated Financial Statements of the U.S. Government*, [GAO-23-105837](#) (Washington, D.C.: Feb. 16, 2023).

---

and Air Force);<sup>5</sup> Office of Inspector General (OIG) of DOD; defense agencies; DOD field activities; and other DOD offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense. These are hereafter referred to collectively as DOD components.

DOD began submitting financial statements for selected components to DOD OIG for audit starting with fiscal year 1991, and began submitting DOD-wide financial statements in fiscal year 1996.<sup>6</sup> These audits resulted in disclaimers of opinion.<sup>7</sup> From fiscal years 2002 through 2018, Congress established requirements and due dates for DOD audit readiness efforts, including

- establishing reporting requirements to assist in monitoring DOD financial improvement efforts,
- requiring specific financial statement audits, and
- establishing audit readiness milestones.

The fiscal year 2014 National Defense Authorization Act (NDAA) required that the Secretary of Defense ensure that DOD performs a full audit on its fiscal year 2018 financial statements and submit the results to Congress no later than March 31, 2019.<sup>8</sup> After years of working toward financial statement audit readiness, DOD underwent annual consolidated financial

---

<sup>5</sup>Marine Corps is a component of Navy.

<sup>6</sup>DOD OIG only performed limited scope audits on the financial statements for fiscal years 1996 through 2001. For limited scope audits, auditors perform appropriate tests only for certain line items and accounts.

<sup>7</sup>A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit; the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive; and, accordingly, the auditor does not express an opinion on the financial statements.

<sup>8</sup>Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (Dec. 12, 2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, *United States Code*.

---

statement audits starting in fiscal year 2018.<sup>9</sup> These audits resulted in disclaimers of opinion at the DOD consolidated level and for many DOD components. During the course of these audits, DOD auditors reported numerous material weaknesses (20 in fiscal year 2018 to 28 in fiscal year 2022) and issued thousands of notices of findings and recommendations (NFR).<sup>10</sup>

According to DOD OIG, the benefits of financial statement audits go beyond the audit opinions. The audits identify weaknesses in IT systems, improve data reliability and visibility for decision-making and budget execution, and help DOD improve its operations and gain efficiencies. As a result of the annual audits, DOD's leadership continues to leverage improvements through financial management transformation toward a clean financial statement audit opinion. DOD is working toward modernizing its financial management processes and operations, retiring noncompliant IT systems, and seeking to improve the quality of financial information for senior leadership decision-making.

House Report 117-88 includes a provision for us to review DOD's efforts toward achieving a clean audit opinion by 2027. This report addresses (1) the status of DOD's efforts to achieve a clean audit opinion on its financial statements as of September 30, 2022, as well as benefits of the audits, and (2) the extent to which DOD has developed plans to address audit findings and achieve a clean audit opinion.

To address our first objective, we reviewed the list of military departments and other DOD components to gain an understanding of the components that contribute to the DOD consolidated financial statement audit. We reviewed DOD and DOD OIG reports to summarize the reported issues and risks, such as material weaknesses and significant deficiencies, that prevented a DOD-wide clean audit opinion. We also reviewed the reports to summarize the reported benefits of the annual financial statement audits. Further, we met with officials in the DOD Office of the Deputy Chief Financial Officer (ODCFO) and DOD OIG to gain an understanding

---

<sup>9</sup>The DOD agency-wide financial statements, referred to as DOD consolidated financial statements, include the financial activity from DOD components, consolidated to create one set of financial statements.

<sup>10</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

---

of issues and risks affecting DOD's ability to achieve a clean audit opinion.

To address our second objective, we reviewed the corrective actions DOD and its military departments took to remediate material weaknesses that the auditors identified. We assessed the corrective action plans' (CAP) data to identify meaningful and measurable milestones (implementation and validation dates) and track progress in addressing the material weaknesses. Additionally, we examined DOD's and the military departments' audit roadmaps and interviewed officials to assess DOD's processes for determining its target dates for addressing material weaknesses.<sup>11</sup> For more information on our scope and methodology, see appendix I.

We conducted this performance audit from February 2022 to March 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

## Background

DOD is the largest department in the U.S. government. It employs 2.1 million military service members and over 770,000 civilian employees at over 4,860 DOD sites located in all 50 states, the District of Columbia, seven U.S. territories, and more than 40 foreign countries. In fiscal year 2022, DOD reported that it received appropriations of over \$1 trillion and reported \$1.2 trillion in assets,<sup>12</sup> which is approximately 24 percent of the

---

<sup>11</sup>DOD audit roadmaps are intended to align material weaknesses, identify timelines, prioritize focus areas, and ensure progress is monitored. The DOD-wide roadmap provides projected material weakness downgrade dates by fiscal year and financial statement line item or material weakness area. The components' roadmaps detail the remediation dates of material weaknesses by fiscal year. The components' audit roadmaps are combined, analyzed, and used to develop the DOD-wide audit roadmap.

<sup>12</sup>Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2022* (Washington, D.C.: Nov. 15, 2022).



---

U.S. government's total assets.<sup>13</sup> Because of DOD's size, it has a major impact on the U. S. government-wide financial statements.

---

## Legislation and Agencies' Efforts to Improve Federal Financial Management

Congress has passed legislation over the years to help ensure that DOD and other federal agencies improve their financial management processes. The Government Management Reform Act of 1994, amending a provision originally enacted by the Chief Financial Officers Act of 1990 (CFO Act), required that CFO Act agencies prepare annual agency-wide financial statements and have those financial statements audited beginning in fiscal year 1996.<sup>14</sup> Since enactment of the CFO Act, federal agencies have significantly improved their financial management by centralizing leadership structures, improving accountability over audited financial statements, significantly improving internal controls, increasing the reliability of their financial information, and taking steps to improve financial management systems by using government-wide providers for certain agency functions.<sup>15</sup>

For fiscal year 2022, 20 of the 24 agencies subject to the CFO Act received clean audit opinions on their financial statements, although some of them took several years to overcome challenges. The Department of Homeland Security (DHS), for example, received its first clean audit opinion on its financial statements for fiscal year 2013, 8 years after becoming a CFO Act agency.<sup>16</sup> DHS faced challenges similar to DOD's in achieving a clean audit opinion, including business and operational issues, use of outdated systems, and the lack of a strategy to achieve its audit goals. Nevertheless, compared to DHS and other CFO Act agencies, DOD is a much larger organization in terms of budget and size, with a more complex mission and operations. As we have previously

---

<sup>13</sup>In accordance with accounting standards, Treasury eliminates intragovernmental transactions in the U.S. government consolidated financial statements. In fiscal year 2022, DOD reported \$1.2 trillion in assets, excluding \$2.3 trillion in intragovernmental assets.

<sup>14</sup>See CFO Act, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990); Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994). This provision has since been amended to include most other executive agencies. 31 U.S.C. § 3515.

<sup>15</sup>GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, [GAO-20-566](#) (Washington, D.C.: Aug. 6, 2020).

<sup>16</sup>The Department of Homeland Security Financial Accountability Act, Pub. L. No. 108-330, 118 Stat. 1275 (2004), incorporated this new agency into a series of existing financial management laws and required DHS to get an audit opinion on its financial statements and its internal controls over financial reporting.

---

reported, DOD's systems environment that supports its business functions, including financial management, was not originally designed for financial reporting. Over the years, this systems environment has been overly complex and error prone, characterized by (1) little standardization across DOD, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) the need for data to be entered manually into multiple systems.<sup>17</sup>

---

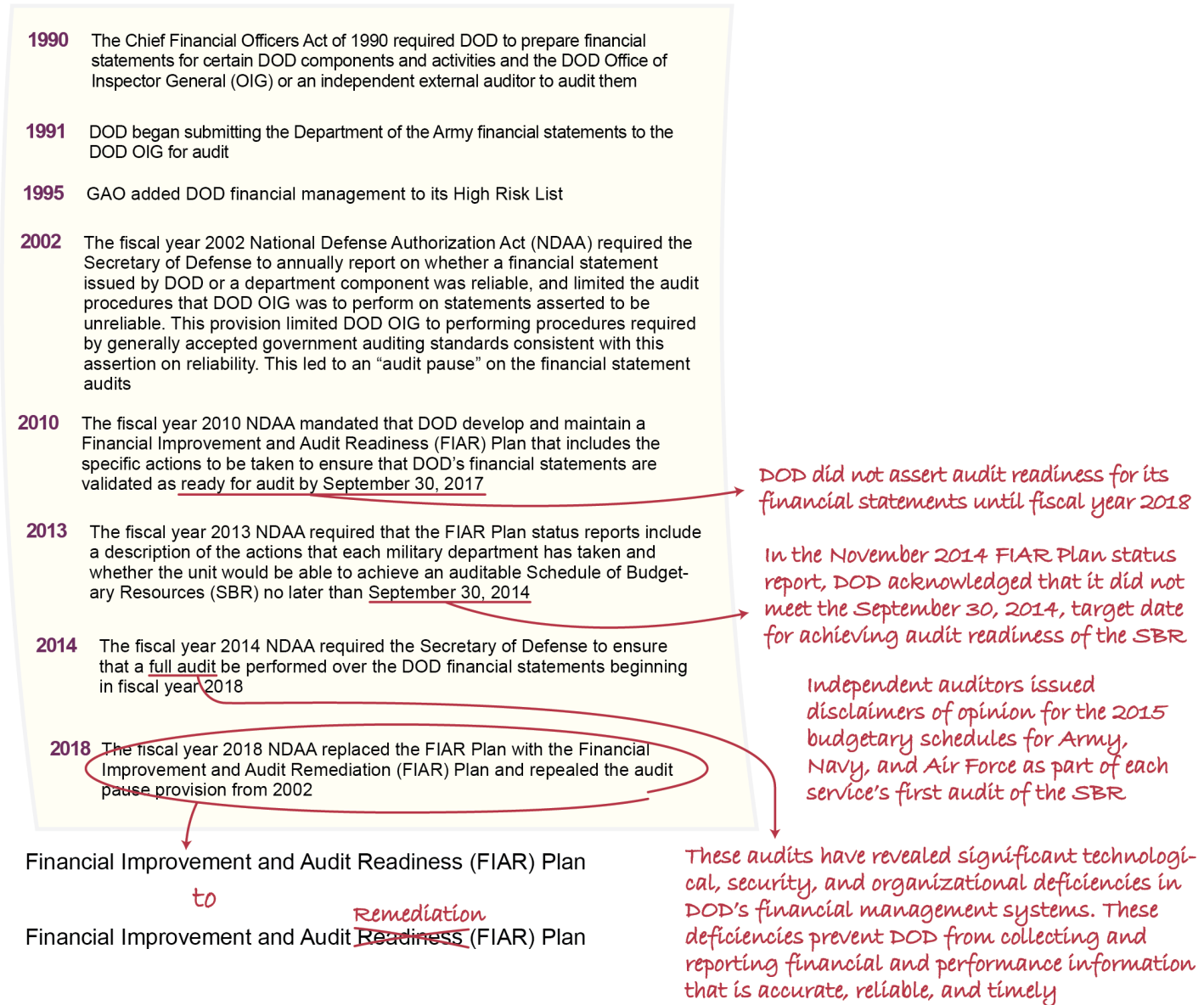
## DOD Financial Management and Audit Readiness Efforts

Over the past several decades, DOD has made efforts—with limited success—to comply with legal requirements to improve its financial management and auditability, as shown in figure 1.

---

<sup>17</sup>GAO, *Financial Management: DOD Needs to Implement Comprehensive Plans to Improve Its Systems Environment*, [GAO-20-252](#) (Washington, D.C.: Sept. 30, 2020).

**Figure 1: DOD Financial Management and Audit Readiness Timeline**



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

The DOD Office of the Under Secretary of Defense (OUSD) (Comptroller) is the principal advisor to the Secretary of Defense for budgetary and

---

fiscal matters, including audit administration.<sup>18</sup> The Financial Improvement and Audit Remediation (FIAR) Directorate within ODCFO helps DOD components prepare for financial audits by providing guidance and helps address deficiencies resulting from these audits by reviewing CAPs.<sup>19</sup> In May 2018, OUSD (Comptroller) issued the *Department of Defense Financial Statement Audit Guide* as a reference for DOD personnel to use while supporting financial statement audits. OUSD (Comptroller) also issued the *Department of Defense Internal Control Over Financial Reporting Guide* as a reference for DOD personnel involved in financial reporting and internal control activities. These two guides replaced the Financial Improvement and Audit Readiness guidance that ODCFO previously issued as DOD transitioned from an “audit readiness” to an “audit remediation” state.

The NDAA for fiscal year 2018 mandated that the Secretary of Defense ensure that a full audit is performed on DOD’s financial statements for each fiscal year and that DOD leadership makes every effort to obtain a clean audit opinion.<sup>20</sup> It also required that OUSD (Comptroller) develop and maintain a centralized monitoring and reporting process that captures and maintains up-to-date information of audit findings.<sup>21</sup> Such information includes the standard data elements recommended in Office of Management and Budget (OMB) guidance for key CAPs that pertain to

---

<sup>18</sup>OUSD (Comptroller) is responsible for budgetary and fiscal matters related to financial management, accounting policy and systems, management control systems, budget formulation and execution, contract and audit administration, and general management improvement programs. OUSD (Comptroller) consists of the following organizations: (1) Budget and Appropriations Affairs, (2) Office of the Deputy Chief Financial Officer, (3) Program/Budget, (4) Resource Issues, and (5) Human Capital and Resource Management.

<sup>19</sup>According to DOD, the FIAR Directorate helps DOD components to be audit ready, remediates audit findings, and works toward achieving postaudit sustainment as well as improving the overall quality of financial information. This directorate is also responsible for developing and issuing detailed financial improvement and audit preparation strategy, plans, and guidance with a positive audit opinion as the desired outcome.

<sup>20</sup>Pub. L. No. 115-91, div. A, § 1002(b)–(c), 131 Stat. 1283, 1538-1539 (Dec. 12, 2017), *codified at* 10 U.S.C. §§ 240a-240b.

<sup>21</sup>See 10 U.S.C. § 240c.

---

critical capabilities.<sup>22</sup> In addition, DOD is required to maintain a FIAR Plan that describes the specific actions to be taken and reports the associated costs.<sup>23</sup> Actions include correcting the financial management deficiencies that impair DOD's ability to prepare reliable, useful, and timely financial management information.

While its full-scope consolidated financial statement audits started in fiscal year 2018, DOD has known that many of the material weakness areas were roadblocks to its auditability for many years. In 2005, OUSD (Comptroller) first established the Financial Improvement and Audit Readiness Directorate to manage, integrate, and implement DOD-wide financial improvement efforts. In its first Financial Improvement and Audit Readiness report in December 2005, DOD acknowledged that material weaknesses in the areas of IT, Fund Balance with Treasury (FBWT), Inventory and Operating Materials and Supplies, Real Property, and Government Property in the Possession of Contractors were significant roadblocks to its auditability goals, due to DOD's size and complexity. These material weaknesses continue to exist 17 years later and prevent DOD from efficient and effective financial management, as well as progress toward receiving a clean audit opinion. DOD has acknowledged that achieving a clean audit opinion will take time.

Given the magnitude and wide range of deficiencies identified in these audits, DOD's ability to effectively oversee and monitor efforts to address them is essential. For fiscal year 2018, DOD OIG reported a material weakness that focused on DOD's oversight and monitoring of DOD components' development and implementation of corrective action plans for all material weaknesses.<sup>24</sup> The material weakness remains open as of fiscal year 2022. DOD OIG also reported in fiscal year 2021 that DOD components are responsible for taking timely and effective actions to correct deficiencies and ensure that CAPs are developed for all material

---

<sup>22</sup>Chief Financial Officers Council, *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting* (July 2005). See also Office of Management and Budget, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Memorandum M-16-17 (July 15, 2016).

<sup>23</sup>See 10 U.S.C. § 240b.

<sup>24</sup>Department of Defense Office of Inspector General, *Understanding the Results of the Audit of the DOD FY 2018 Financial Statements* (Alexandria, Va.: Jan. 8, 2019).

---

weaknesses.<sup>25</sup> However, as we previously reported in October 2020, some DOD components had not developed CAPs for all weaknesses.<sup>26</sup> The DOD OIG reported that without effective oversight and monitoring, these material weaknesses would continue to affect DOD's ability to provide reasonable assurance that internal controls over financial reporting are effective.

In addition, in October 2020, we reported that DOD did not obtain comprehensive information from the DOD components on the status of their CAPs, such as interim milestones, completion dates, and other indicators or targets.<sup>27</sup> We also found that DOD's audit-readiness status reports did not include this type of information even though external stakeholders, such as OMB, DOD OIG, GAO, and Congress, need it to evaluate DOD's progress toward correcting the deficiencies that are preventing it from obtaining a clean audit opinion on its financial statements.

---

## The Financial Statement Audit Process

DOD OIG is the group auditor responsible for managing and completing the audits of the DOD consolidated financial statements the Defense Finance and Accounting Service (DFAS) prepares. To help it carry out this responsibility and perform DOD component financial audits, DOD OIG contracts with independent public accountants (IPA) as component auditors to audit certain DOD entities. DOD OIG monitors and oversees the IPAs' work to ensure that the audits comply with contract requirements and audit standards. DOD OIG reviews, consolidates, and uses the results of these audits to support its conclusions on the audit of the DOD consolidated financial statements.

To begin the process for preparing financial statements, DOD components submit their financial statement-related data to DFAS. Next, DFAS standardizes the data and prepares the DOD consolidated financial statements, including elimination of billions of dollars in intradepartmental

---

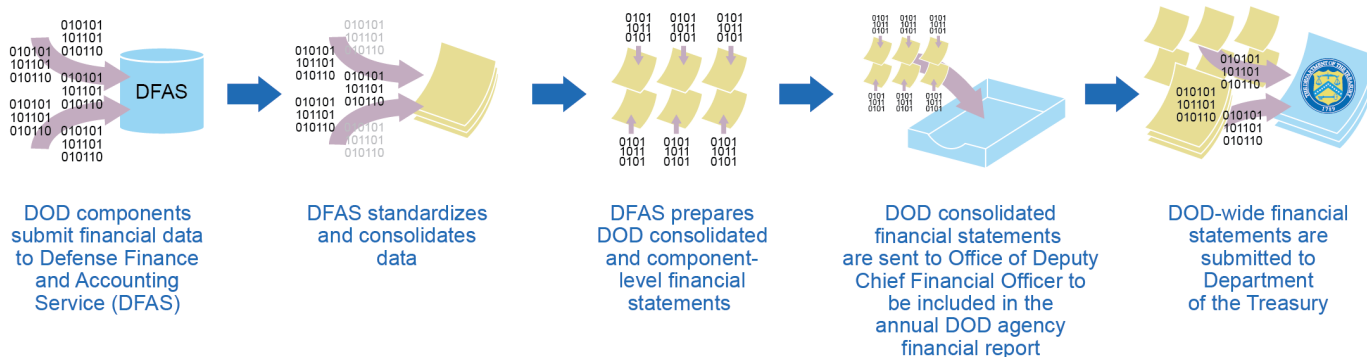
<sup>25</sup>According to the *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Controls*, CAPs are plans developed by management to present the procedures that an agency plans to follow to resolve its deficiencies. CAPs should include measurable indicators of compliance and resolution to assess and verify progress throughout the resolution cycle.

<sup>26</sup>GAO, *DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits*, [GAO-21-157](#) (Washington, D.C.: Oct. 13, 2020).

<sup>27</sup>[GAO-21-157](#).

transactions. In addition, DFAS works with the DOD components to prepare component-level financial statements and consolidates them to prepare DOD-wide consolidated financial statements. DFAS sends consolidated financial statements to ODCFO for review and inclusion in the annual agency financial report (AFR). DFAS then submits the DOD consolidated financial statements and supporting financial information to the Department of the Treasury by November 15 each year for inclusion in the consolidated financial statements of the U.S. government. (See fig. 2.) Treasury, in cooperation with OMB, must submit audited (by GAO) U.S. government consolidated financial statements to the President and Congress no later than 6 months after the September 30 fiscal year-end. The U.S. government's consolidated financial statements cover all accounts and associated activities of the U.S. government.

**Figure 2: DOD Financial Statement Preparation Process**



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

Treasury prepares an annual financial report, which includes the U.S. government's consolidated financial statements, from the financial information provided by 162 federal consolidation entities, including DOD. GAO has issued a disclaimer of opinion on the federal government's accrual-based consolidated financial statements for each year since the federal government began preparing consolidated financial statements in fiscal year 1997.<sup>28</sup> As previously stated, one of the three major impediments that continues to prevent GAO from expressing an opinion

<sup>28</sup>The U.S. government's accrual-based consolidated financial statements comprise the (1) Statements of Net Cost, Statements of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Budget Deficit, Statements of Changes in Cash Balance from Budget and Other Activities, and Balance Sheets and (2) related notes to these financial statements.

---

on the U.S. government's accrual-based consolidated financial statements is the serious financial management problems at DOD.

---

## DOD Has Not Achieved a Clean Audit Opinion as of September 30, 2022

DOD began undergoing full-scope consolidated financial statement audits under the 2014 NDAA in fiscal year 2018. The audits have resulted in disclaimers of opinion, thousands of NFRs, and material weaknesses in internal control over financial reporting. DOD continues to remediate NFRs and address material weaknesses. DOD is working toward bringing its financial systems into compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), including introducing new systems to replace its legacy systems.<sup>29</sup> In addition to identifying the issues and risks, DOD financial audits have resulted in short- and long-term benefits to DOD.

---

## Reported Disclaimers of Opinion on DOD Financial Statement Audits

DOD financial audits for fiscal year 2022 and prior years have resulted in disclaimers of opinion at the DOD consolidated level and for many DOD components—meaning that DOD auditors were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Fiscal year 2018 was the first year that DOD underwent its full-scope consolidated financial statement audit required under the fiscal year 2014 NDAA. DOD's fiscal year 2018 financial statement audit consisted of 24 stand-alone component audits representing 95 percent of DOD's budget and 97 percent of DOD's assets.<sup>30</sup> In addition, DOD OIG performed audit testing of activities and balances of other DOD components that represent the remaining 5 percent of DOD's budget and 3 percent of DOD's assets.

For the fiscal year 2018 audit, DOD OIG issued a disclaimer of opinion on the DOD consolidated financial statements. The audits identified 20 overall material weaknesses and 2,595 NFRs, including those for weak IT

---

<sup>29</sup>Pub. L. No. 104-208, div. A, § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sep. 30, 1996). FFMIA requires CFO Act agencies, including DOD, to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

<sup>30</sup>As of fiscal year 2022, the number of DOD components undergoing stand-alone audits is 27, and the number of unmodified opinions has increased to seven from six in fiscal year 2018.



---

controls, insufficient controls to ensure the accuracy and completeness of property records, and incomplete universes of financial transactions.<sup>31</sup>

Of the 24 stand-alone audits, 16 components—including the military departments—received disclaimers of opinion, while six components received clean audit opinions and two received qualified opinions on their respective fiscal year 2018 financial statements.<sup>32</sup> In addition, the IPAs that audited the fiscal year 2018 financial statements of DOD components reported 129 component-level material weaknesses, many of which were similar among the components. For each fiscal year 2019 through 2022, DOD OIG again issued a disclaimer of opinion on DOD’s financial statements.

---

## Issues and Risks That Hinder DOD’s Ability to Achieve a Clean Audit Opinion

### Material Weaknesses

As audit testing has expanded since fiscal year 2018, the number of DOD material weaknesses that DOD OIG has identified has also increased. Material weaknesses underlie the audit scope limitations that prevent DOD from achieving a clean audit opinion. In fiscal year 2018, auditors reported 20 material weaknesses; 25 in fiscal year 2019; 26 in fiscal year 2020; 28 in fiscal year 2021; and although new weaknesses were identified in fiscal year 2022, due to consolidations in how DOD OIG categorizes the material weaknesses, 28 remain in fiscal year 2022.<sup>33</sup> (See fig. 3.)

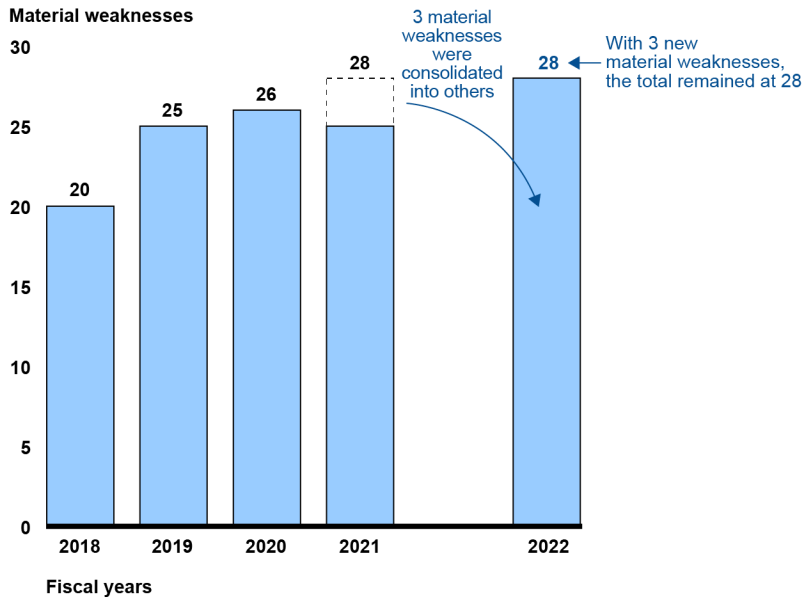
---

<sup>31</sup>A universe of transactions is a central repository of financial transactions, such as transactions related to the DOD’s inventory, property, or payroll. The universe of transactions is compiled by combining all transactions from multiple accounting systems.

<sup>32</sup>Auditors give qualified opinions (which are a type of a modified opinion) when they obtain sufficient and appropriate evidence and conclude that material misstatements are not pervasive to the financial statements; or auditors are unable to obtain sufficient appropriate evidence to support an opinion, but conclude that the possible effects of undetected material misstatements on the financial statements are not pervasive.

<sup>33</sup>In fiscal year 2020, DOD OIG split the Financial Management Systems and Information Technology material weakness to allow for more targeted and actionable efforts. This split increased DOD’s fiscal year 2020 IT material weaknesses from one to four.

**Figure 3: DOD Material Weaknesses Identified by Auditors**



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

The fiscal year 2022 U.S. government consolidated financial statements reported that auditors of the 24 CFO Act agencies identified 50 material weaknesses. Twenty-eight of these material weaknesses were associated with DOD. Of all the DOD material weaknesses and significant deficiencies identified in fiscal year 2022, 25 material weaknesses and three significant deficiencies were repeated from fiscal year 2021. Seventeen of the material weakness conditions have existed since at least 2018, with some that were reported even earlier. In addition, one of the significant deficiency conditions has existed since 2019, and two of the significant deficiency conditions have existed since 2020.

The 28 material weaknesses that DOD OIG identified in fiscal year 2022 are consistent with the 15 material weakness areas DOD management identified in its statement of assurance. The ODCFO NFR database categorizes the NFRs based on these 15 material weakness areas. For example, the “Entity Level Controls” material weakness area includes the material weaknesses DOD OIG identified on Component Level Oversight and Monitoring, DOD-Wide Oversight and Monitoring, and Entity Level Controls. However, all 15 of the material weakness areas cover all 28 material weaknesses DOD OIG identified, as shown in table 1.

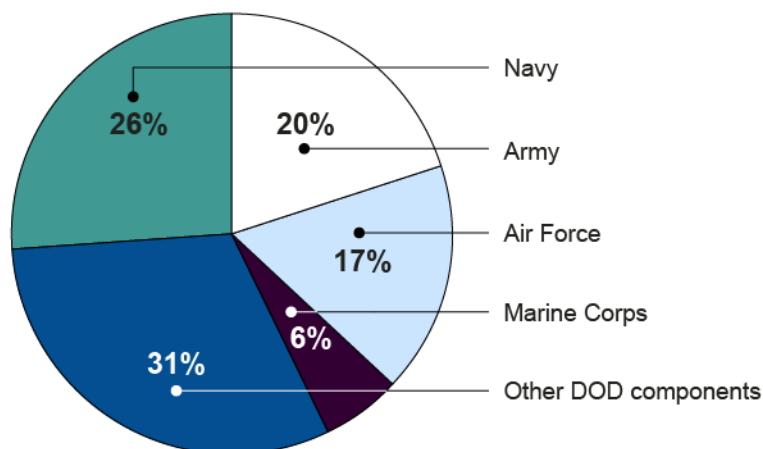
**Table 1: Fiscal Year 2022 Office of Inspector General (OIG) Material Weaknesses Categorized into DOD Material Weakness Areas**

<b>DOD material weakness area</b>	<b>OIG-identified material weakness</b>
Entity Level Controls	Component Level Oversight and Monitoring
	DOD-Wide Oversight and Monitoring
	Entity Level Controls
Fund Balance with Treasury	Budgetary Resources
	Fund Balance with Treasury
	Suspense Accounts
Financial Management Systems and Information Technology	Access Controls
	Configuration Management and Security Management
	Legacy Systems
	Segregation of Duties
Financial Reporting Compilation	Beginning Balances
	Contingent Legal Liabilities
	Earned Revenue
	Financial Statement Compilation
	Gross Costs
	Reconciliation of Net Cost of Operations to Outlays
	Service Organizations
	Universe of Transactions
	Unsupported Accounting Adjustments
Health Care Liabilities	Accounts Payable
Contract/Vendor Pay	
Reimbursable Work Orders	Intradepartmental Eliminations and Intragovernmental Transactions
Equipment Assets	General Property, Plant, and Equipment (Equipment and Internal Use Software)
Internal Use Software	
Joint Strike Fighter Program	Joint Strike Fighter Program
Real Property Assets	Real Property
Environmental Liabilities	Environmental and Disposal Liabilities
Accountability & Management of Property Furnished to Contractors for the Performance of a Contract	Government Property in Possession of Contractors
Inventory	Inventory and Stockpile Materials
Operating Materials & Supplies	Operating Materials & Supplies

Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

In addition, as of August 2022, DOD's military departments contribute about 69 percent of the NFRs that relate to DOD-wide material weaknesses, with Navy representing the largest percentage (26 percent) of material weaknesses. DOD's other (over 50) components make up the remaining 31 percent, as shown in figure 4. Addressing these NFRs at the military departments is critical to help address material weaknesses at the DOD-wide level.

**Figure 4: Percentage of Notices of Findings and Recommendations That Contribute to DOD Material Weaknesses, by Component**



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

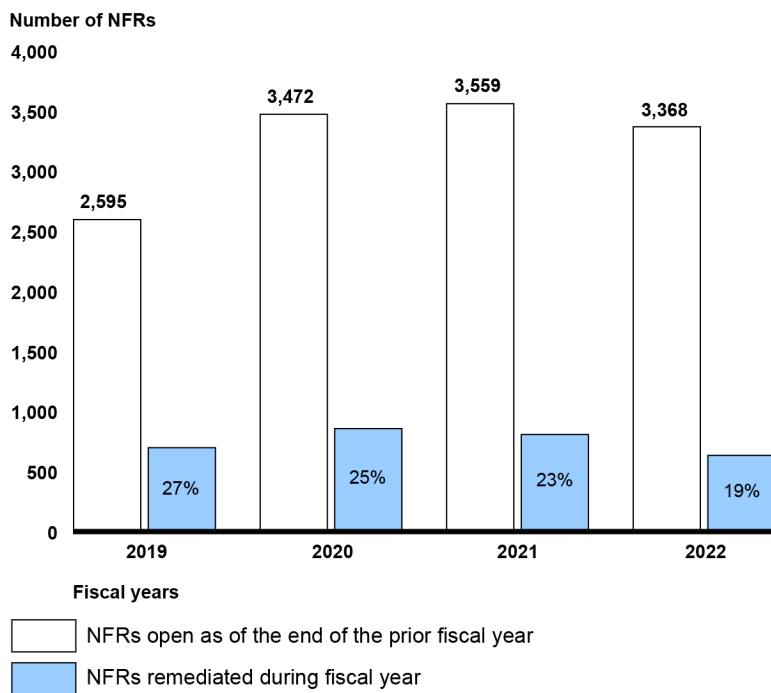
## NFR Remediation Rates since 2019

NFR remediation rates each year—the rate at which DOD and its components fully address and close auditor-issued NFRs—reflect any progress DOD made toward achieving a clean opinion. DOD officials indicated that they wanted to demonstrate progress by closing NFRs. However, as noted below, DOD's NFR remediation rate since 2019 has declined. According to DOD officials, while it initially was able to address and close less-complex issues identified in NFRs, issues that are more complex can take multiple years to address.

In fiscal year 2018, auditors issued 2,595 NFRs to DOD components. In fiscal year 2019, auditors were able to close 698, or 27 percent, of those NFRs open as of the end of fiscal year 2018. During the fiscal year 2020 audits, auditors closed 857, or 25 percent, of the 3,472 NFRs open as of the end of fiscal year 2019. In fiscal year 2021, auditors closed 808, or 23

percent, of the 3,559 NFRs open as of the end of fiscal year 2020. In fiscal year 2022, auditors closed 634 or 19 percent, of the 3,368 NFRs open as of the end of fiscal year 2021 and issued or reissued 2,992 NFRs. (See fig. 5.)

**Figure 5: Notices of Findings and Recommendations (NFR) Remediation Rate**



Source: GAO analysis of the Department of Defense documentation. | GAO-23-105784

### Ongoing Deficiencies with DOD’s Financial Management Systems

In January 2020, the DOD OIG reported that DOD had wide-ranging weaknesses in its financial management systems that prevented it from collecting and reporting financial and performance information that was reliable, useful, and timely.<sup>34</sup> These long-standing weaknesses continue to affect DOD’s ability to achieve a clean audit opinion.<sup>35</sup> DOD’s financial management and business systems modernization efforts have been on GAO’s list of high-risk programs and initiatives since 1995 and remain a

<sup>34</sup>Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the DOD FY 2018 Financial Statements* (Alexandria, Va.: Jan. 8, 2019).

<sup>35</sup>[GAO-20-252](#).

---

key impediment to the department's efforts to achieve a clean audit opinion.

Some of DOD's financial systems were designed and implemented in the 1960s, and were not designed to capture all of the transaction-level details needed to satisfy various accounting and reporting requirements. In past years, DOD has upgraded some legacy financial systems that are no longer supported by the vendor and have been surpassed by new technology.<sup>36</sup> These legacy systems were not meant to support financial reporting and maintain an adequate audit trail and are not compliant with FFMIA requirements, as DOD OIG has reported.

As we previously reported in September 2020, the use of DOD legacy financial systems has been an ongoing material weakness. We reported that DOD did not have sufficiently detailed plans for migrating key military department legacy accounting systems to new systems. For example, Navy developed a plan to migrate its system, but the plan was missing key elements outlined in the Software Engineering Institute guidance.<sup>37</sup> Army and Air Force also did not have detailed migration plans for their key accounting systems.<sup>38</sup>

Further, as DOD OIG reported, DOD management's department-wide CAP stated that DOD planned to resolve its legacy system material weakness by March 2022.<sup>39</sup> However, as of September 30, 2022, the legacy system issue continues to be a material weakness that was reported in DOD's fiscal year 2022 AFR. The material weakness listed as Financial Management Systems Modernization in the 2022 AFR was called Legacy Systems in the AFR for fiscal year 2021. DOD OIG also reported in May 2022 that DOD management extended retirement dates for nine systems from September 2020 to September 2021. As of

---

<sup>36</sup>DOD defines legacy systems as those systems to be terminated in less than 3 years from the end of the current fiscal year.

<sup>37</sup>Software Engineering Institute, *DOD Software Migration Planning*, CMU/SEI-2001-TN-012 (Pittsburgh, Pa.: August 2001). SEI is a nationally recognized, federally funded research and development center established at Carnegie Mellon University in Pittsburgh, Pennsylvania, to address software development issues.

<sup>38</sup>[GAO-20-252](#).

<sup>39</sup>Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the DOD FY 2021 Financial Statements* (Alexandria, Va.: May 18, 2022).

---

November 2021, DOD had not retired any of those nine systems, according to the OIG.

DOD management recognizes the risk that legacy systems pose to its operations and related accounting, and is in the process of identifying, retiring, and replacing legacy systems. DOD OIG indicated that systems not in compliance with FFMIA should be categorized as legacy systems to be decommissioned, retired, or replaced. However, DOD OIG reported that DOD did not categorize all FFMIA-noncompliant systems as legacy systems. For example, per DOD OIG, there were at least 140 systems used within DOD that did not comply with certain federal requirements. However, DOD did not consider these systems as legacy systems because it did not plan to retire them until fiscal year 2036 or later.

In DOD's fiscal year 2022 AFR, DOD OIG reported that DOD published an *Information Technology Roadmap* that established its plan to retire noncompliant systems and move toward modernization of financial management systems. Further, DOD OIG reports that while the roadmap establishes an approach for reviewing noncompliant systems, it does not provide timelines for these reviews. In addition, DOD is unable to produce a complete inventory listing of systems that do not comply with FFMIA. According to DOD OIG, before DOD can retire all noncompliant systems, it must first ensure that it has a complete and accurate inventory of financial management systems.

DOD seeks to improve its financial management systems and address challenges to achieving a clean audit opinion. As DOD OIG reported, DOD will not be able to generate reliable, useful, and timely information without replacing legacy financial systems with FFMIA-compliant systems. DOD OIG considers the continued use of legacy systems to be one of the biggest challenges DOD faces in obtaining a clean audit opinion.<sup>40</sup>

## Introduction of New Systems and Challenges Faced

As we recently reported, for over 30 years DOD has initiated a variety of efforts and undergone several changes in organizational responsibility to help modernize its business and financial systems.<sup>41</sup> DOD's business systems include, but are not limited to, financial management systems,

---

<sup>40</sup>Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2022* (Washington, D.C.: Nov. 15, 2022).

<sup>41</sup>GAO, *Financial Management: DOD Needs to Improve System Oversight*, [GAO-23-104539](#) (Washington, D.C.: Mar. 7, 2023).

---

property management systems, and acquisition management systems. These systems contribute information that supports DOD's efforts to prepare financial statements. To address the legacy system deficiency and improve financial management, DOD is in the process of retiring, consolidating, and modernizing its legacy systems.

These efforts further support the reduction of legacy systems and the expansion of standardized platforms across DOD. However, DOD rarely processes financial transactions using only one IT system. In fiscal year 2021, DOD reported that it used 299 separate IT systems to support its financial statements. Because of the number of DOD systems, DOD OIG reported that it is critical that DOD develops, implements, and maintains effective interface controls to ensure that data flow between systems correctly and are accurately reported on DOD's financial statements.<sup>42</sup> In fiscal year 2022, DOD OIG identified interface controls as a material weakness. Interface controls are necessary to ensure that reliable data are properly converted within DOD's financial management systems. Ineffective interface controls directly affect the reliability of DOD's financial data and increase the risk that amounts presented in the financial statements may be materially misstated.

DOD stated that one of the biggest DOD-wide benefits of the financial statement audits is the improvement of data.<sup>43</sup> The audit requirement for supportable transactional data is speeding the pace of system improvements, which will eventually provide management with insights, metrics, analytics, and a common operating picture from which to make informed decisions. Examples of three DOD system initiatives are described below.

### **Defense Agencies Initiative**

According to the Defense Logistics Agency (DLA), the Defense Agencies Initiative (DAI) is a platform intended to transform the budget, finance, and accounting operations of DOD defense organizations. DAI is DLA's Information Operations program and system. DAI was established to deliver an auditable, CFO Act-compliant business environment to defense organizations, which would enable them to provide reliable, useful, and

---

<sup>42</sup>Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the DOD FY 2021 Financial Statements* (Alexandria, Va.: May 18, 2022).

<sup>43</sup>Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (June 2021).



---

timely financial information supporting DOD's goal of standardizing financial management practices, improving financial decision support, and supporting audit readiness. According to DOD, DAI is also FFMIA-compliant and is a critical DOD effort to modernize the defense agencies' financial management capabilities. Currently, 29 smaller DOD components use DAI, including DFAS and Marine Corps.

As DOD reported, Marine Corps began its migration to the DAI accounting system at the beginning of fiscal year 2022, and the migration could replace multiple legacy systems.<sup>44</sup> Per Marine Corps officials, it migrated to DAI because corrective actions for NFRs could not be completed, in whole or in part, due to limitations within the existing legacy system, the Standard Accounting, Budgeting, and Reporting System—known as SABRS. According to the officials, Marine Corps DAI implementation should

- streamline financial management capabilities,
- improve the accuracy and efficiency of financial reporting capabilities,
- resolve material weaknesses, and
- achieve financial statement auditability.

In fiscal year 2022, DAI received its sixth consecutive service organization report with an unmodified opinion that the controls were suitably designed and operated effectively to provide reasonable assurance that the control objectives stated in management's description of the system were achieved.<sup>45</sup>

### **Advana**

Advana is an enterprise data platform used across DOD for advanced analytics. Advana began in fiscal year 2017 when ODCFO and DFAS started building a universe of transactions to support the DOD-wide financial statement audit. DOD and its components are now using Advana to enhance financial data by linking nonfinancial data sources. Advana's data model standardizes DOD data to help address some of DOD's historical issues. Through Advana, data are managed centrally and are

---

<sup>44</sup>GAO is currently evaluating Marine Corps' migration to DAI.

<sup>45</sup>For the purposes of this report, a service organization report is an attestation report that evaluates service organization controls that are likely to be relevant to a user entity's internal control over financial reporting.

---

available DOD-wide for multiple purposes. The military departments have each begun using Advana.

- Navy is using Advana to improve planning, programming, budgeting, and execution processes using common data.
- Marine Corps is using Advana to reconcile its FBWT and improve daily reconciliation processes within DAI.
- Air Force is using Advana to establish a universe of transactions to expedite analytics and minimize duplicative data requiring additional compensating controls.
- Army is using Advana to reconcile its FBWT.

Advana has not been fully implemented DOD-wide. Although Advana collects and stores data, such as collections and disbursements from the many DOD financial management systems, it does not yet enable its users to perform effective FBWT reconciliations. For example, in fiscal year 2021, DOD OIG determined that DOD component personnel could not reconcile the population of defense agency transactions in Advana, which included FBWT transactions, to their respective financial statements. For fiscal years 2020 through 2022, Advana received consecutive service organization reports with modified opinions due to deficiencies in the areas of access controls and segregation of duties.<sup>46</sup>

### **Government Invoicing Initiative**

The Government Invoicing (G-Invoicing) initiative coordinates intradepartmental transactions, provides transparency, and supports more accurate accounting and reporting. DOD identified implementation of Treasury's G-Invoicing system as a long-term solution to account for and support its intradepartmental activities. DOD components use multiple accounting systems to record and summarize their financial transactions and G-Invoicing is intended to replace the various systems. G-Invoicing provides a common platform for recording and processing intradepartmental transactions, such as the buying and selling of items (buy/sell) between two entities (e.g., Army and Navy) within DOD.

---

<sup>46</sup>The three types of modified opinions are qualified, adverse, and disclaimer. Advana received an adverse opinion in fiscal year 2020 and qualified opinions in fiscal years 2021 and 2022.

---

The Intragovernmental Transactions and Intradepartmental Eliminations material weakness was identified by DOD OIG in fiscal year 2011 and has been an impediment to DOD achieving a clean audit opinion. As DOD reported, G-Invoicing should enable DOD to correctly report, reconcile, and eliminate intragovernmental balances.<sup>47</sup>

We previously reported that DOD has not implemented a DOD-wide strategy to address its intradepartmental eliminations material weakness in the short term and prior to the full implementation of G-Invoicing.<sup>48</sup> Further, we found that while DOD issued a DOD-wide policy in May 2019 with new requirements for reconciling intradepartmental transactions, DFAS and some DOD components have not updated their policies or implemented several of the new requirements. Also, selected DOD components' initial implementation of G-Invoicing was not consistent or complete.

---

## Officials' Views of the Path to Achieving a DOD-Wide Clean Audit Opinion

Officials at both DOD and DOD OIG stated their views of the path for DOD to achieve a clean audit opinion. According to officials at ODCFO, at a minimum, one or two of the military departments would need to get a clean audit opinion to start a path toward a DOD-wide clean audit opinion. Officials stated that from the financial statement line item perspective, components achieving a clean audit opinion would not mean that they do not have any material weaknesses. Rather, a clean opinion would indicate that the auditor has reasonable assurance that the financial statement amounts are fairly presented, considering the nature and extent of any identified material or other control weaknesses and any identified misstatements.

Officials at DOD OIG stated that to get a DOD-wide clean audit opinion, the OIG has to gain reasonable assurance that the financial statements are free of material misstatements. Further, DOD OIG officials stated that at a minimum, due to their large size, all of the military departments would need to have clean audit opinions to be able to issue a clean audit opinion on the overall DOD-wide financial statements.

---

## Benefits from the Audits

The financial statement audit has value far beyond the audit opinion. It can help to identify vulnerabilities and ways to improve operations. As

---

<sup>47</sup>Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2022* (Washington, D.C.: Nov. 15, 2022).

<sup>48</sup>GAO, *Department of Defense: Actions Needed to Improve Accounting of Intradepartmental Transactions*, [GAO-21-84](#) (Washington, D.C.: Jan. 14, 2021).

---

DOD reported, financial audits have resulted in short- and long-term benefits. The audits have increased transparency and visibility of financial management issues, and are providing a positive return on investment from value gained through independent auditor insight into DOD's business processes. These audit insights help DOD to assess what is performing well and what areas still need improvement. The audits have also helped identify assets that DOD did not know existed. DOD reported that as a result, it improved its operations and business processes, which should lead to the preparation of reliable financial statements and help DOD's mission by providing accurate information for decision-making. Some of the specific benefits DOD noted follow:

- **Identification of unrecorded assets.** This results in (1) the identification of usable inventory that was not tracked in the inventory system but was available for use to address unmet needs; (2) additional storage space that previously held unneeded inventory; or (3) the determination that inventory was unavailable or unusable to meet mission needs.
  - In fiscal year 2022, Navy identified more than \$4.4 billion in previously untracked material through inventory cleanup and redeployment programs dating back to 2018.
  - In fiscal year 2020, Navy identified and added nearly \$2.4 billion of unrecorded inventory, operating materials and supplies, and general equipment that was made available across the Navy. These items were subsequently used to fill over 12,000 requisitions, which otherwise would have cost \$50 million in material.
  - In fiscal year 2019, DOD auditors identified a material weakness related to the Joint Strike Fighter (JSF) program. The JSF program is DOD's most costly weapon system in history, with overall costs estimated to be more than \$1.7 trillion over the program's life cycle. As a result of the audits, DOD designed inventory count procedures to verify the existence of JSF assets. In fiscal year 2022, DOD identified approximately 5,000 assets, valued at over \$8 million, that needed to be added to the contractors' property records.<sup>49</sup>
- **Greater oversight and efficiency in processing financial transactions.** This results in reducing manual activities.

---

<sup>49</sup>GAO, *DOD Financial Management: Additional Actions would Improve Reporting of Joint Strike Fighter Assets*, [GAO-22-105002](#) (Washington, D.C.: May 5, 2022).

- 
- Army developed a quarterly reconciliation of construction-in-progress balances between two systems to reach a zero variance between reports in fiscal year 2022, which creates efficiencies and reduces manual activity.
  - In fiscal year 2022, Air Force identified and corrected approximately \$5.2 billion worth of variances in its general ledger for equipment and accumulated depreciation. DOD reported that this increased level of visibility allows for greater control and oversight of financial transactions related to military equipment.<sup>50</sup>
  - **Better management of obligations.** This results in budget funds being available for more immediate mission-support and mission-critical needs.
    - In fiscal year 2021, we reported that DOD automated the quarterly review process of its obligations, eliminating inefficiencies and providing analysts the time and insights needed to identify \$316 million that could be put to better use before these funds expired or were canceled.
    - For fiscal year 2022, DOD reported that it identified \$43 million in contract deobligations, which allowed DOD to reprogram the funds to more immediate needs.
  - **Improved recording of environmental and disposal liabilities (EDL).** This establishes a consistent and sustainable methodology for adequately gathering data and developing estimates regarding current and future EDL.
    - The audits have helped and will continue to help DOD inventory all sites and assets and identify and accurately record EDL for future resolution.<sup>51</sup> As reported by DOD OIG, DOD's EDL has increased over the years, and EDL is the second largest liability on DOD's consolidated financial statements.<sup>52</sup> In fiscal year 2018, DOD was unable to develop accurate estimates and account for EDL, and in fiscal year 2019, DOD OIG identified EDL as one of

---

<sup>50</sup>Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (June 2022).

<sup>51</sup>In fiscal year 2022, Navy achieved a material weakness downgrade for EDL. EDL make up 60 percent of the Navy's General Fund liabilities.

<sup>52</sup>EDL are estimated costs for future remediation, cleanup, or disposal of items resulting from DOD operations or the use of its assets that have an impact on the environment. DOD EDL can include items such as cleanup costs for active installations, weapon systems programs, and chemical weapons disposal programs.

---

the most significant material weaknesses as a result of expanded audit procedures.

---

## DOD Has Taken Steps to Address Audit Findings, but Its Plans Are Not Sufficient to Achieve a Clean Audit Opinion

DOD has taken steps to address audit findings. It has developed audit priority areas and plans such as a financial management strategy, CAPs, and audit roadmaps. However, DOD's plans do not have sufficient details that are important for achieving a clean audit opinion, and DOD has faced challenges meeting target remediation dates it had previously established.

---

### Efforts to Address Audit Findings Are Steps in the Right Direction

DOD has developed audit priority areas, a financial management strategy, CAPs, and audit roadmaps to respond to audit findings. These are important steps for DOD toward its goals of improving its overall financial management and achieving a clean audit opinion.

### Audit Priority Areas

After receiving the results from the fiscal year 2018 audit, the then-Acting Secretary of Defense began using an annual memorandum outlining audit priority areas for DOD. The audit priority areas focus on significant DOD-wide material weakness areas, as determined by ODCFO and DOD OIG. These audit priority areas are intended to support audit progress and strong, sustainable internal controls, as well as improve security of vital systems and data. To monitor audit progress, DOD has established audit roadmaps and is developing an audit roadmap scorecard, which we discuss in more detail later in this report.

In fiscal years 2020 and 2021, DOD's audit priorities spanned eight and seven areas, respectively. To bring more focused attention on its highest-priority material weaknesses, DOD narrowed its fiscal year 2022 focus to three key, foundational areas:

- improving FBWT,
- strengthening and securing its IT systems environment by establishing user access controls, and
- creating and maintaining a universe of transactions for financial reporting.

Progress on the priority areas is captured on executive dashboards through performance metrics. For example, the progress on FBWT is measured based on the amount of undistributed transactions as a

---

percentage of FBWT.<sup>53</sup> The percentage of high-priority access control NFRs closed and internal control design and operating effectiveness test rates are also measures of progress.

Individual DOD components also have their own audit priority areas. To continue helping DOD work toward achieving a clean audit opinion, the military departments are focusing on downgrading material weaknesses and are aligning their audit remediation efforts to the Secretary of Defense's fiscal year 2022 audit priorities. Representatives of each DOD component meet with the Deputy Chief Financial Officer periodically to coordinate and review progress on material weaknesses targeted for resolution, the Secretary's audit priorities, and audit-related issues and challenges. These reviews also provide forums for discussing issues that could benefit from a DOD-wide perspective or assistance from DOD leaders.

## Financial Management Strategy

In March 2022, OUSD (Comptroller) issued the *DOD Financial Management Strategy* (FM Strategy), which includes high-level strategic goals for uniting DOD-wide financial management community efforts through fiscal year 2026. The strategic goals are to (1) cultivate a skilled and inspired financial management workforce; (2) optimize taxpayer dollars for the highest-value outcomes; (3) increase the integrity of financial results; (4) simplify and optimize DOD's end-to-end business environment; and (5) empower data-driven, fiscally informed decision-making.

The third strategic goal, increasing the integrity of financial results, identifies accelerating the path to a clean audit opinion as an objective and focuses on addressing several of the key material weaknesses, which is consistent with the audit priorities the Secretary of Defense identified. The strategy states that more detailed implementation plans will be forthcoming.

## CAPs

DOD and its components develop CAPs to address NFRs and material weaknesses.<sup>54</sup> CAPs are the mechanism through which the components

---

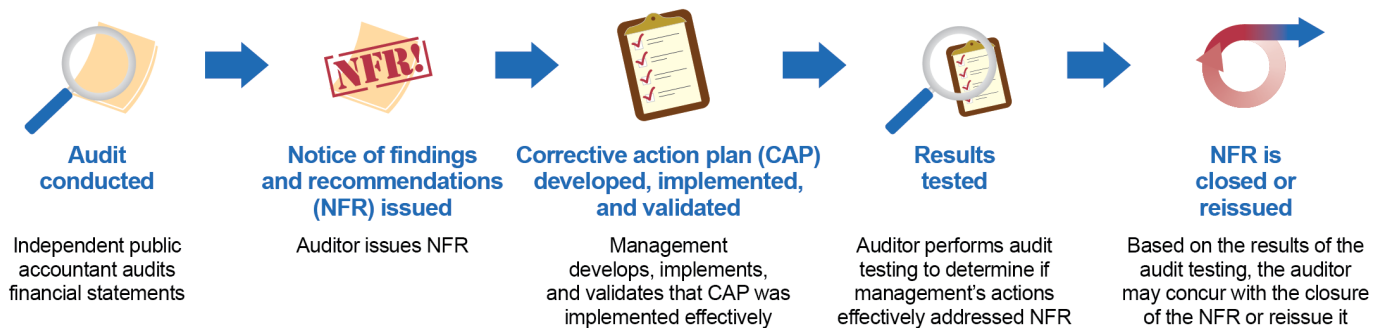
<sup>53</sup>Undistributed transactions are transactions that have occurred and been reported to Treasury, but have not yet been recorded in DOD's general ledger accounting system.

<sup>54</sup>According to the *Implementation Guide for OMB Circular A-123*, CAPs are plans management develops to present the procedures that an agency plans to follow to resolve its deficiencies. CAPs should include measurable indicators of compliance and resolution to assess and verify progress throughout the resolution cycle.

address the recommendations from the NFRs issued by the IPAs. After receiving an NFR, DOD and component management develop one or more CAPs that outline how the finding will be remediated; establish key milestones, including projected implementation and validation dates; and assign responsibility for completing identified tasks.<sup>55</sup> The CAPs are validated either by the components or by the IPA. The IPA will review the CAPs for closure, in turn remediating the associated NFRs.

DOD reported in June 2022 that it had developed CAPs to address over 77 percent of the fiscal year 2021 NFRs.<sup>56</sup> After CAPs are developed, management is responsible for implementing the corrective action(s) and monitoring progress to assess whether sufficient actions have been taken or if additional actions are needed to resolve an NFR. If sufficient actions have been taken, management performs tests to validate their effectiveness (see fig. 6).

**Figure 6: DOD’s Process for Addressing NFRs Issued by Financial Statement Auditors**



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

Well-developed CAPs are key to audit remediation success. Since fiscal year 2018, IPAs have issued thousands of NFRs, and DOD components have developed thousands of CAPs to address them. DOD’s CAPs reflect targeted milestones and completion dates. The CAP development

<sup>55</sup>Per DOD, once a component has completed a CAP’s remediation activities, its status is updated to “implemented.” This status indicates that all tasks and milestones intended to resolve the finding are complete. Once the CAP’s effectiveness has been tested, the status of the CAP will be marked as “validated.”

<sup>56</sup>Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (June 2022).



---

process includes three phases: develop, implement, and validate. CAP development typically begins with conducting a root-cause analysis.<sup>57</sup> Performing a thorough, methodical root-cause analysis is an important part of developing a CAP that effectively addresses the fundamental weakness from which the deficiency derives. CAPs should include measurable indicators of compliance and resolution to assess and verify progress throughout the resolution cycle.<sup>58</sup>

The process of addressing issues identified through the NFRs has evolved since 2018. DOD military departments consider each material weakness area as a focal point and develop CAPs to respond to the issues related to the material weakness area. There is no one-to-one linking of the NFRs and CAPs. Several CAPs can be developed to address conditions on one NFR, or one CAP may address several NFRs. For example, Navy develops CAPs that are not for a specific NFR, but address the overall remediation efforts for that specific material weakness area.

## Audit Roadmaps

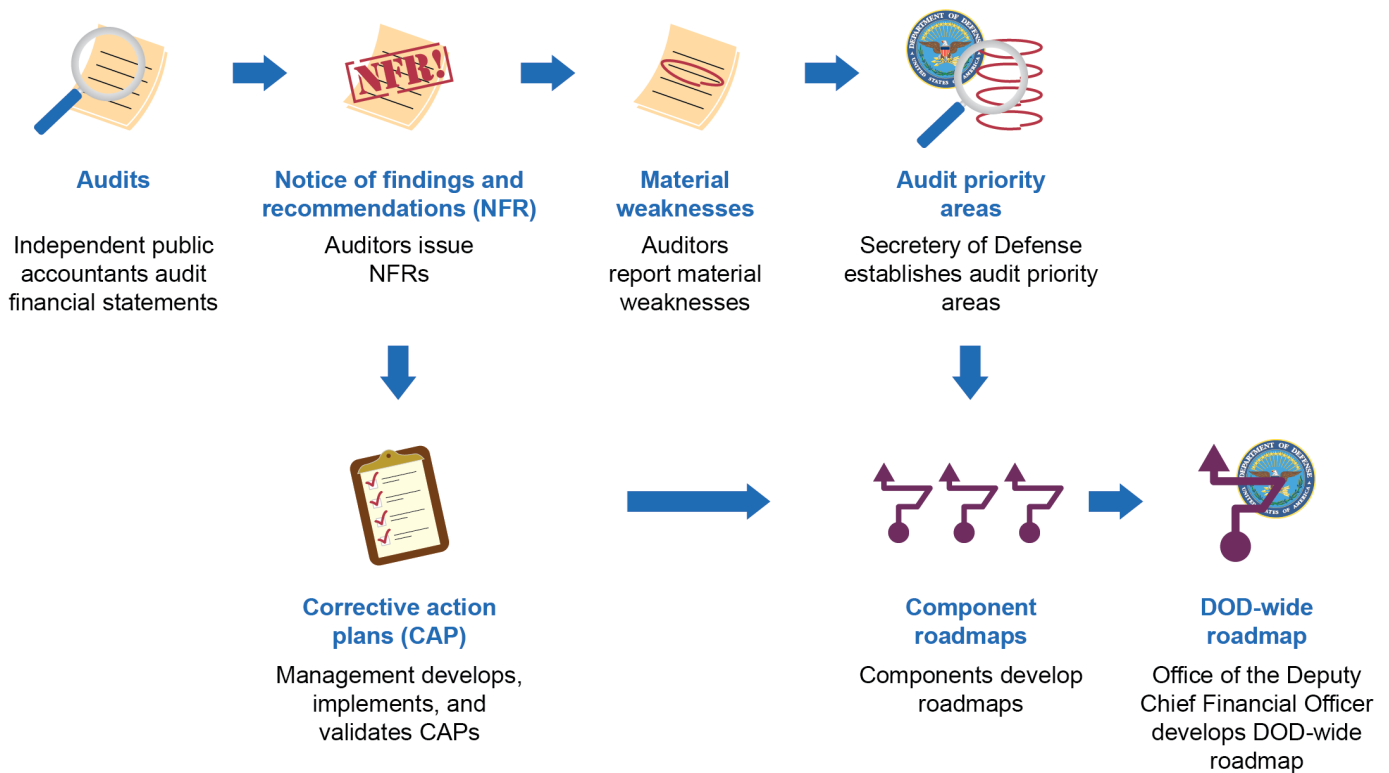
DOD established financial statement audit roadmaps in fiscal year 2021 as a tool to measure and monitor progress of the CAPs developed to remediate material weaknesses. According to DOD, the DOD-wide audit roadmap charts a course for remediating its 28 material weaknesses as identified by DOD OIG. This roadmap aligns DOD-wide remediation strategies, identifies timelines for achieving audit opinions for specific material weakness areas, and is used to monitor progress and resources, according to DOD. (See fig. 7.)

---

<sup>57</sup>The root-cause analysis is defined as a systematic process for identifying the underlying sources of the deficiency.

<sup>58</sup>Chief Financial Officers Council, *Implementation Guide for OMB Circular A-123*, and Office of Management and Budget, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*.

**Figure 7: Development of DOD-Wide Roadmap**



Source: GAO analysis of the Department of Defense (DOD) information. | GAO-23-105784

The Secretary of Defense directs each component under a stand-alone audit that has not already achieved a clean audit opinion to develop a roadmap for achieving a clean audit opinion. ODCFO issued guidance to components on what to include in each roadmap. Per the ODCFO guidance, each roadmap should contain the following elements:

- identification of material line items,
- timeline to achieve full remediation over these line items,
- significant milestone activities and related timing to achieve the target timeline, and

- 
- identification of applicable dependencies.<sup>59</sup>

Each DOD component required to create a roadmap identifies activities necessary to achieve a clean audit opinion, and considers the implementation status and the complexity of financial and IT issues identified during the audits. ODCFO aggregates, analyzes, and uses the components' audit roadmaps to develop the DOD-wide audit roadmap. The components' audit roadmaps provide projected remediation dates, while the DOD-wide audit roadmap provides material weakness downgrade dates.<sup>60</sup> All dates are by fiscal year and financial statement line item or material weakness area.

Additionally, DOD service organizations are also developing audit roadmaps. DOD service organizations remediate auditor findings, from the examinations conducted in accordance with attestation standards, to chart the path for achieving clean audit opinions on DOD systems and business processes.<sup>61</sup>

---

### DOD's Plans Lack Certain Details That Are Important to Achieving a Clean Audit Opinion, and DOD Has Consistently Missed or Extended Target Remediation Dates

As previously noted, DOD's efforts to address audit findings are important steps toward DOD achieving its goals for improved financial management and a clean audit opinion. However, DOD's plans lack certain details that are important to achieving a clean audit opinion by 2027. Specifically, the FM Strategy, CAPs, and audit roadmaps lack key information that would help DOD achieve its financial management goals and timely remediate audit findings.

### FM Strategy, CAPs, and Audit Roadmaps Lack Key Details

While DOD's issuance of the FM Strategy helps to demonstrate management's continued commitment to leadership and improving the state of DOD's financial management, it is a high-level strategy document that is not comprehensive. The FM Strategy's focus is not specific to achieving a clean audit opinion. Rather, it focuses on general DOD-wide

---

<sup>59</sup>Dependencies are impediments outside the component's control that may affect the timely completion of corrective actions. For example, dependencies could include the need for funds or the timing and consistency of data provided by service organizations' systems.

<sup>60</sup>An estimated remediation date is a target date for when the material weakness is expected to be resolved. An estimated downgrade date is a target date for when the material weakness is expected to be downgraded to a significant deficiency.

<sup>61</sup>Per ODCFO, DOD's service organization auditors completed 28 attestation engagements in fiscal year 2022 with 25 of 28 or 89 percent achieving a favorable opinion (14 achieving an unmodified opinion and 11 achieving a modified opinion).

---

priorities for financial management. The FM Strategy does not contain details on how DOD and the military departments will implement the strategic financial management goals noted in the document. Also, it does not include detailed plans for addressing material weaknesses identified by financial statement auditors. It is a broad strategy document on DOD's overarching financial management goals for the department. Although it identifies accelerating the path to a clean audit opinion as an objective of one strategic goal, this is not the primary focus of the strategy. According to DOD, future plans will address how DOD plans to achieve its strategic goals and objectives; however, the FM Strategy does not indicate a timeline for when DOD expects to issue such additional plans.

Additionally, we previously reported that most of DOD's CAPs lack evidence and documentation of root causes for deficiencies.<sup>62</sup> ODCFO instructed the components to develop CAPs that include, at a minimum, the data elements described in the *Implementation Guide for OMB Circular A-123*. However, we reported that CAPs that DOD and its components developed did not always contain all of the data elements recommended in OMB's guidance. In addition, components' CAPs did not always indicate that a root-cause analysis had been performed. Many CAPs indicated the analysis was performed, but there was no supporting documentation.

The root-cause analysis is an important part of developing a CAP that effectively addresses the fundamental weakness from which the deficiency is derived.

As noted in our prior report, we did not find evidence that a root-cause analysis was being performed consistently. We recommended that DOD provide supporting documentation for performing a root-cause analysis as a part of the CAP process. DOD agreed with our recommendation and, since issuance of our report, has made improvements regarding the root-cause analysis. Specifically, the CAP template has "root cause" as a required field, and DOD's CAP training discusses root-cause analysis. Nevertheless, as of January 2023 our recommendation remains open, as we have not received updated CAP guidance. Without documented root-cause analyses, DOD lacks assurance that its components are taking appropriate actions that will resolve the underlying causes associated with the NFRs and related material weaknesses that collectively prevent

---

<sup>62</sup>[GAO-21-157](#).

---

the auditability of its financial statements. We will continue to monitor DOD's actions to address this open recommendation.

In addition, DOD's audit roadmaps include target remediation dates, but they lack interim milestone activities and dates. ODCFO's roadmap guidance states that significant milestone activities and related timing should be included in all roadmaps. However, we found that all DOD-wide and component-level roadmaps lack these significant interim milestone activities and dates. Documenting milestone activities and dates in the roadmaps is important to show the interim steps for reaching overall target remediation goals and dates and to track DOD's progress in remediating material weaknesses.

According to ODCFO officials, a DOD-wide roadmap scorecard is being developed to drive accountability and oversight over the roadmap process. Officials indicated that the pilot testing for the scorecard would start early in fiscal year 2023. The scorecard is envisioned as a stand-alone oversight tool to be provided quarterly to senior management with milestones. As of January 2023, DOD has not provided updates on the scorecard status.

Overall, DOD's various financial management and audit remediation plans lack details that would better enable it to achieve a clean audit opinion—including a clear statement of management's vision for how DOD will achieve a clean audit opinion. They also lack complete, detailed procedures—with interim milestone activities and dates—for how DOD will address material weaknesses across all of the DOD components. In addition, it is not clear whether DOD downgrading all material weaknesses, or only certain material weaknesses, is necessary to achieve a clean audit opinion—largely because DOD has not developed and documented a comprehensive plan to coordinate its efforts in this area.

OMB's Circular A-123 states that the corrective action process provides the mechanism for management to present a comprehensive plan for addressing the risk associated with a control deficiency. Additionally, *Standards for Internal Control in the Federal Government* states that management should remediate identified internal control deficiencies on a timely basis, establish and operate monitoring activities to monitor the internal control system, and evaluate the results. Developing a comprehensive plan that is specific to DOD's goal to achieve a clean audit opinion would help DOD better coordinate its efforts in this area and estimate the time it will take to remediate material weaknesses or

---

DOD Has Consistently Missed or Extended Target Remediation Dates

downgrade them to significant deficiencies. Without such a comprehensive plan, DOD is at increased risk that it will continue to be unable to achieve a clean audit opinion on its financial statements.

DOD has faced challenges in meeting target dates it established in CAPs for remediating issues identified in NFRs. Target remediation dates provide a way for management to estimate the time it will take to complete actions and monitor progress. As of June 2022, out of 2,601 CAPs in fiscal year 2021, only 389 had been validated, and 124 CAP validation dates were extended. For example:

- As of the end of fiscal year 2021, many of the Navy's CAPs in the implementation or development phase had current validation dates that were extended past their original validation dates. For example, a CAP that covers 24 IPA-reported NFRs related to the remediation of the reimbursable work order process had an original CAP validation date of June 30, 2021, that was extended to June 30, 2023.
- As of the end of fiscal year 2021, out of 129 reissued NFRs, Air Force had 91 NFRs with date slippages in the CAP expected validation date field, with 71 of those being extended beyond a year.
- Marine Corps has a CAP in the development phase categorized in the DOD-wide Financial Management Systems and Information Technology material weakness area related to segregation of duties. The associated NFRs were first identified in fiscal year 2019. The CAP had an original estimated validation date of February 2021. However, its current estimated validation date has been extended to February 2025.
- Army has a CAP in the development phase categorized in the DOD-wide Financial Reporting Compilation material weakness area related to unsupported beginning balances. The associated NFRs were first issued in fiscal year 2018. The CAP had an original estimated validation date of February 2020. However, its current estimated validation date has been extended to September 2025.

Slipping target remediation dates for the CAPs impacts and delays progress for remediating NFRs and, in turn, prevents material weaknesses from being downgraded to significant deficiencies or fully remediated by target remediation dates. As we previously reported, this has occurred at DOD because of the lack of consistent identification of root causes of deficiencies. Further, CAPs developed did not always indicate whether a root-cause analysis was performed, and if it was performed, it was not always documented. As previously mentioned, we

---

will continue to monitor DOD's efforts to identify and document root causes of deficiencies, which would help DOD to better estimate and report its remediation timelines in CAPs.

DOD has also not met and continually extended material weakness target remediation dates it established in the DOD-wide audit roadmaps. For example, as of October 2020, the fiscal year 2021 Navy audit roadmap had the expected clean audit opinions for Navy's general and working capital funds as fiscal year 2027. However, as of December 2021, the fiscal year 2022 Navy audit roadmap had the target remediation dates for the audit opinions as fiscal year 2028. Because of such changes at the component level, the DOD-wide audit roadmap clean audit opinion date was also affected.

The target remediation dates have remained unmet or extended in part because DOD developed its current DOD-wide roadmap without considering key factors for how it and components will achieve DOD's auditability goals. Specifically, in developing the DOD-wide roadmap to achieve a clean audit opinion, including target remediation dates for downgrading material weaknesses, OUSD (Comptroller) did not document the consideration of the dependencies identified in the military departments' roadmaps that would need to be resolved before material weaknesses could be remediated. These dependencies have inherent uncertainties for achievement and timing and affect the timely remediation of corrective actions. For example:

- The target remediation dates for a few of the material weakness areas on Army's roadmap rely on the effectiveness of the Advana system, and there is no clear indication of when the effectiveness of the Advana system will be achieved.
- Air Force and Marine Corps depend on service organizations to help remediate the FBWT weakness, with no target date as to when material weaknesses will be remediated. Marine Corps also noted that the remediation of the FBWT weakness is important to achieving a clean audit opinion in fiscal year 2023.
- The majority of Navy's material weaknesses depend on service organization's clean audit opinions on their internal controls for remediation. It is not clear when these service organizations will achieve clean audit opinions.

OUSD (Comptroller) also set target downgrade dates for material weaknesses based on information from the military departments without

---

reviewing support for the target remediation dates provided. On the DOD-wide audit roadmap, the downgrade date for a specific line item or material weakness area is based on the farthest remediation date provided by components. However, OUSD (Comptroller) does not have monitoring procedures in place to reasonably assure consistent and accurate support for the tracking, recording, and reporting of target remediation dates presented in all component-level roadmaps to include in the DOD-wide roadmap.

Additionally, the estimated downgrade dates in the DOD-wide roadmap are not based on an analysis of whether the estimated target remediation dates in component-level roadmaps are feasible. Such an analysis would consider dependencies, as discussed above, and such factors as NFR assessment, completeness of the corrective actions, and consideration of resources. For example, if a component contributes a higher percentage of NFRs for a specific line item or material weakness area and has over 80 percent of its NFRs yet to be addressed, DOD management does not assess if the component will be able to address the remaining NFRs. Further, DOD management does not assess the age of the NFRs related to the material weakness to see if there are NFRs that have been long outstanding and determine the reasons why. Developing and implementing procedures to analyze these factors would help DOD determine the feasibility of components' estimated target remediation dates and better identify problem areas. This would also help DOD to reassess actions and adjust plans if the analysis shows that the estimated dates cannot be met.

Moreover, although the military departments have corrective action plans in place, they have been unable to meet target remediation dates in their audit roadmaps in part because ODCFO does not issue detailed guidance to help them develop appropriate and supportable timelines for their component-level roadmaps. ODCFO does issue guidance on what each roadmap should include: the identification of material line items, a timeline to achieve full remediation over these line items, significant milestone activities and related timing to achieve the target timeline, and identification of applicable dependencies. However, ODCFO's guidance consists of a brief email to components listing this information, and does not provide additional detailed guidance to help components, including the military departments, develop such timelines. Without additional guidance from DOD management, it will be difficult for components to plan their audit remediation activities and to appropriately set and meet realistic goals.



---

*Standards for Internal Control in the Federal Government* states that management should remediate identified internal control deficiencies on a timely basis, and establish and operate monitoring activities to monitor the internal control system and evaluate the results. Taking steps to improve processes for developing audit roadmaps would help DOD meet target remediation dates. Such steps would include

- considering dependencies identified by components,
- developing monitoring procedures to ensure that consistent and accurate support is provided for remediation dates,
- analyzing the feasibility of estimated target remediation dates, and
- issuing guidance to components to help them develop appropriate and supportable timelines in component-level roadmaps.

Without taking such steps, DOD and components increase the risk that they will continue to miss and extend target remediation dates in its audit roadmaps, further hindering DOD's ability to achieve a clean audit opinion.

---

## Conclusions

DOD OIG has issued disclaimers of opinion and reported numerous material weaknesses based on its audits of DOD's fiscal years 2018 through 2022 DOD-wide consolidated financial statements. In addition to identifying material weaknesses, DOD financial audits have resulted in short- and long-term benefits for DOD and its components. DOD leadership believes that the results of the audits will assist DOD in implementing corrective actions that will improve financial management DOD-wide.

Recognizing the magnitude and wide range of deficiencies identified in these audits, DOD and its components have taken steps to respond to audit findings. These steps indicate DOD's commitment to improving its overall financial management and achieving a clean audit opinion. However, DOD's plans lack key information that would help it to remediate material weaknesses and reach auditability by 2027. As we previously reported, CAPs DOD developed did not always indicate whether a root-cause analysis was performed. We will continue to monitor DOD's efforts to identify and document root causes of deficiencies, which would help DOD to better estimate and report remediation timelines in CAPs. DOD has also consistently missed and extended its target dates for remediating issues identified in CAPs and audit roadmaps, which affects its progress in downgrading or fully remediating material weaknesses.

---

Developing a comprehensive plan that establishes a clear DOD-wide vision for how to achieve a clean audit opinion and includes complete, detailed procedures for addressing material weaknesses across all of the DOD components would help DOD to address challenges it has encountered with audit remediation efforts and meet its auditability goal. Additionally, taking steps to improve how component-level and DOD-wide audit roadmaps are developed and monitored would help DOD and components track milestones and timelines for audit remediation efforts.

---

## Recommendations for Executive Action

We are making the following five recommendations to DOD:

The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller), in collaboration with the Secretaries of Navy, Air Force, and Army, develops and documents a DOD-wide comprehensive plan to coordinate its efforts to achieve a clean audit opinion. The plan should include a clear statement of the DOD-wide vision for how to achieve a clean audit opinion and complete, detailed procedures for addressing material weaknesses, with interim milestone activities and dates. (Recommendation 1)

The Under Secretary of Defense (Comptroller) should document the consideration of dependencies identified in component-level roadmaps when developing its DOD-wide roadmap. (Recommendation 2)

The Under Secretary of Defense (Comptroller) should develop monitoring procedures to reasonably assure consistent and accurate support for tracking, recording, and reporting of target remediation dates presented in all component-level roadmaps when developing its DOD-wide roadmap. (Recommendation 3)

The Under Secretary of Defense (Comptroller) should develop and implement procedures to analyze the feasibility of estimated target remediation dates included in the DOD-wide roadmap. Such procedures should include steps to reassess actions and adjust plans if the analysis shows that the estimated dates cannot be met. (Recommendation 4)

The Under Secretary of Defense (Comptroller) should issue additional guidance to components, including the military departments, for developing appropriate and supportable timelines in component-level roadmaps. (Recommendation 5)

---

## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in appendix II, DOD concurred with one recommendation, partially concurred with three recommendations, and did not concur with one recommendation. DOD OIG also provided technical comments, which we incorporated as appropriate.

DOD concurred with recommendation 5 and stated that it will issue the appropriate guidance.

DOD partially concurred with recommendations 2, 3, and 4 related to the improvement of processes for developing audit roadmaps.

- DOD partially concurred with recommendation 2, to document the consideration of dependencies identified in component-level roadmaps when developing its DOD-wide roadmap. In its written comments, DOD stated that components are required to identify the dependencies in component-level roadmaps in support of the remediation dates for each identified component-level material weakness. In addition, DOD stated that considerations to timeline adjustments are made at the components' discretion.

We acknowledge that DOD identifies dependencies on its component-level roadmaps. However, as described in the report, the consideration of dependencies that would need to be resolved before material weaknesses could be remediated is not documented. These dependencies have inherent uncertainties that affect the timely remediation of corrective actions.

- DOD partially concurred with recommendation 3, to develop monitoring procedures to reasonably assure consistent and accurate support for tracking, recording, and reporting target remediation dates presented in all component-level roadmaps when developing its DOD-wide roadmap. In its written comments, DOD stated that it has established the oversight and monitoring function for component-level target remediation dates through the Audit Roadmap Dashboard. DOD also stated that the FIAR Committee and Governance Board, Property/IT Functional Councils, and Deputy's Management Action Group (DMAG) meetings are leveraged to monitor and address components' efforts to remediate identified audit deficiencies.

We acknowledge the occurrence of the FIAR, Functional Councils, and DMAG meetings. Although DOD relies on these meetings and status updates discussed in them to broadly monitor remediation efforts, the meetings do not address our recommendation to develop

---

monitoring procedures for remediation dates. As stated in the report, DOD continues to miss or extend its target remediation dates. Additional evidence, such as information on the Audit Roadmap Dashboard described in DOD's comments and the audit roadmap scorecard under development, is needed to show that DOD has monitoring procedures in place to provide consistent and accurate support for target remediation dates.

- DOD partially concurred with recommendation 4, to develop and implement procedures to analyze the feasibility of estimated target remediation dates included in the DOD-wide roadmap. In its written comments, DOD stated that throughout the audit fiscal year, it discusses and develops DOD-wide remediation efforts and plans to analyze the feasibility of estimated target remediation dates documented in the DOD-wide audit roadmaps. DOD stated that the Under Secretary of Defense (Comptroller) will implement additional procedures to analyze the feasibility of the estimated target remediation dates included in the DOD-wide roadmap. However, DOD has not provided us with such procedures. Their effectiveness in addressing our recommendation would depend upon how the procedures are implemented in the future.

Until DOD improves its processes for developing audit roadmaps, including documenting the consideration of dependencies, developing monitoring procedures, and developing and implementing procedures to analyze the feasibility of estimated target remediation dates, it is likely to continue to miss or extend its target remediation dates. Therefore, we continue to believe that recommendations 2, 3, and 4 are warranted.

With regard to recommendation 1, DOD stated that it did not concur with our recommendation to develop and document a DOD-wide comprehensive plan to coordinate its efforts to achieve a clean audit opinion. In its written response, DOD stated that it has already established a clear plan and vision toward DOD's objective of improving its financial management process and procedures. However, it is not clear as to what DOD's plan and vision for achieving a clean audit opinion is and whether it is documented or comprehensive, as it was not provided to us.

As described in DOD's response and in our report, DOD has taken steps to improve the state of its financial management. For example, it developed audit priority areas and audit roadmaps at the component level, which are aggregated to develop the DOD-wide roadmap. However,

---

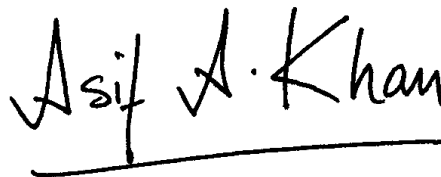
these steps do not comprise a comprehensive plan. We discuss in the report that the roadmaps do not have sufficient details that are important to achieve a clean audit opinion. We also note in the report that the roadmaps lack significant interim milestone activities and dates. DOD has also faced challenges meeting target remediation dates it had previously established.

Developing and documenting a comprehensive plan that is specific to DOD's goal to achieve a clean audit opinion would help DOD better coordinate its efforts and estimate the time it will take to remediate material weaknesses or downgrade them to significant deficiencies. Without such a comprehensive plan, DOD is at increased risk that it will continue to be unable to achieve a clean audit opinion on its financial statements. Therefore, we continue to believe that our recommendation to develop and document a detailed DOD-wide comprehensive plan is warranted.

---

We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Deputy Chief Financial Officer; the Director, Financial Improvement and Audit Remediation; the Offices of the Assistant Secretaries of Air Force, Army, and Navy (Financial Management & Comptroller); and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Asif A. Khan". The signature is written in a cursive style and is positioned above a horizontal line.

Asif A. Khan  
Director, Financial Management and Assurance

---

---

*List of Committees*

The Honorable Jack Reed  
Chairman  
The Honorable Roger Wicker  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Jon Tester  
Chair  
The Honorable Susan Collins  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Mike Rogers  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Ken Calvert  
Chair  
The Honorable Betty McCollum  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

---

# Appendix I: Objectives, Scope, and Methodology

---

Our objectives were to (1) determine the status of the Department of Defense's (DOD) efforts to achieve a clean audit opinion on its financial statements as of September 30, 2022, as well as benefits of the audits, and (2) examine the extent to which DOD has developed plans to address audit findings and achieve a clean audit opinion.

To determine the status of DOD's efforts to achieve a clean audit opinion, we compiled a list of DOD components, including military departments and other DOD components. We reviewed DOD and DOD Office of Inspector General (OIG) and Financial Improvement and Audit Remediation (FIAR) status reports to summarize the benefits of the audits as well as issues and risks, such as material weaknesses and significant deficiencies, that prevent the DOD-wide clean audit opinion. The reports we reviewed include DOD agency financial reports for fiscal years 2018 through 2022, DOD OIG *Understanding the Results of the Audit of the DOD Financial Statements* reports for fiscal years 2018 through 2021, FIAR status reports for fiscal years 2019 through 2022, and service organization reports.<sup>1</sup>

We also reviewed the notice of finding and recommendation (NFR) database to assess the contribution of the DOD components to each of the material weaknesses. We met with officials in the Office of the Deputy Chief Financial Officer (ODCFO) and DOD OIG to gain an understanding of their views on how DOD can achieve a clean audit opinion. This included considerations on whether all DOD components should have clean audit opinions for a DOD-wide clean audit opinion. We also discussed issues and risks affecting DOD's ability to obtain a clean audit opinion.

We considered three of the new systems that DOD has implemented to address the legacy system deficiency and improve financial management: Defense Agencies Initiative (DAI), Advana, and Government-Invoicing (G-Invoicing). These three systems are related to financial management at DOD, and two of these systems (DAI and Advana) are used across DOD and its components. We obtained documentation to help us gain an understanding of the functions of the new systems, how they are helping DOD address the legacy system deficiency and improve financial management, and the challenges with their implementation. The documentation we reviewed includes DAI and Advana status updates and

---

<sup>1</sup>For the purposes of this report, a service organization report evaluates service organization controls that are likely to be relevant to a user entity's internal control over financial reporting.

service organization reports, Defense Logistics Agency financial reports for fiscal years 2021 and 2022, and DOD's G-Invoicing Implementation Memorandum.

We interviewed ODCFO and military department officials to determine actions taken to identify audit remediation priority areas and prioritize financial statement audit findings preventing DOD from obtaining a clean audit opinion. We reviewed and summarized the material weaknesses and significant deficiencies that prevent the DOD-wide clean audit opinion.

To determine the extent to which DOD has developed plans to address audit findings and achieve a clean audit opinion, we evaluated corrective action plans (CAP) that the DOD components developed to address the audit findings, and the DOD-wide and military departments' roadmaps for monitoring and tracking progress of the remediation process. We reviewed and summarized the audit priorities the Secretary of Defense identified and the current DOD financial management strategy. We also reviewed FIAR Plan status reports to assess the timeliness of meeting the goals.

Additionally, we reviewed the audit priorities the Secretary of Defense identified from fiscal years 2019 to 2022 to understand DOD's highest-priority material weaknesses over the years. We also obtained DOD's March 2022 Financial Management Strategy to review DOD's financial management goals.

To evaluate the CAPs, we reviewed a prior GAO report that focused on DOD's efforts to develop CAPs. The report also assessed if the CAPs included elements required by Office of Management and Budget (OMB) guidance. We reviewed the prior recommendations made related to root-cause analysis. We also reviewed the CAPs' data from the NFR database to assess the CAP closure rate. Further, we reviewed CAP data for details on quantifiable measures of success and to identify meaningful and measurable milestones for tracking progress of the material weaknesses that affect DOD's ability to achieve a clean audit opinion.

To evaluate the roadmaps developed for monitoring the corrective actions and remediation process, we obtained and reviewed the ODCFO roadmap guidance. We obtained the DOD-wide and the military departments' roadmaps for fiscal years 2021 and 2022. We compared the roadmaps with the elements of a roadmap as listed in the ODCFO



roadmap guidance. We examined the roadmaps for the elements necessary for sufficiency of monitoring and tracking progress.

We also examined DOD's and the military departments' audit roadmaps and interviewed officials to assess DOD's processes for determining its target dates for addressing material weaknesses. We evaluated the roadmap processes using the OMB Circular A-123 guidance, which states that management's process for resolution and corrective action of identified internal control deficiencies must (1) include critical path milestones that affect the overall schedule and performance of the corrective actions needed to resolve the deficiency and (2) ensure that accurate records of the status of the identified control deficiency are maintained and updated throughout the entire process consistent with agency policy.

We conducted this performance audit from February 2022 to March 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1 100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

April 28, 2023

Mr. Asif Khan  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington DC 20548

Dear Mr. Khan:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-23-105784, "DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements," dated March 31, 2023 (GAO Code 105784). Attached is our response to recommendations in the report.

My point of contact is Mr. Robert Smith (robert.k.smith4.civ@mail.mil or 703-695-3526).

Sincerely,

STEFFENS.THOMA  
S.CHARLES.10293  
42870

Digitally signed by  
STEFFENS.THOMAS.CHARLES.  
1029342870  
Date: 2023.04.28 17:43:20 -04'00'

Thomas C. Steffens  
Deputy Chief Financial Officer

Enclosure:  
As stated

**GAO DRAFT REPORT DATED MARCH 31, 2023  
GAO-23-105784 (GAO CODE 105784)**

**“DOD FINANCIAL MANAGEMENT ADDITIONAL ACTIONS NEEDED TO ACHIEVE  
A CLEAN AUDIT OPINION ON DOD’S FINANCIAL STATEMENTS”**

**DEPARTMENT OF DEFENSE RESPONSE TO GAO RECOMMENDATIONS**

**RECOMMENDATION 1:** The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller), in collaboration with the Secretaries of Navy, Air Force, and Army, develops and documents a DOD-wide comprehensive plan to coordinate its efforts to achieve a clean audit opinion. The plan should include a clear statement of the DOD-wide vision for how to achieve a clean audit opinion; and complete, detailed procedures for addressing material weaknesses, with interim milestone activities and dates.

**DoD RESPONSE:** Non-concur. The Under Secretary of Defense (Comptroller), in collaboration with the Secretaries of Navy, Air Force, and Army, has already established a clear plan and vision towards the Department’s objective of improving its financial management process and procedures. The plan uses audit roadmaps to align material weakness (MW) remediation strategies, identify risks, timelines, prioritize focus areas, and monitor progress for standalone Components with a Disclaimer of Opinion. The audit roadmaps are annual submissions that detail Components’ MWs, target remediation dates by fiscal year, and highlights dependencies to accomplish MW downgrades/closures. Component audit roadmaps are aggregated to develop the DoD-wide audit roadmap that documents the Department’s planned date for the projected downgrade of DoD-wide material weaknesses and achieving clean audit opinion dates. Leadership continues to demonstrate its strong commitment towards this goal through the issuance of the annual Secretary of Defense (SecDef) Tone-at-the-Top Memo and SecDef Audit Priorities Memorandums. Additionally, DoD has established the procedures for progress monitoring of remediation milestones through the Deputy Secretary of Defense (DSD) glide paths, monthly Financial Improvement Audit Readiness (FIAR) Governance Board (FGB) meetings, and quarterly and semi-annual Deputy’s Management Action Group (DMAG) meetings.

**RECOMMENDATION 2:** The Under Secretary of Defense (Comptroller) should document the consideration of dependencies identified in component-level roadmaps when developing its DOD-wide roadmap.

**DoD RESPONSE:** Partially concur. The Under Secretary of Defense (Comptroller) requires the Components to identify the dependencies in Component-level roadmaps in support of the remediation dates for each identified Component-level material weakness. These dependencies are sometimes based on external factors (e.g., funding, timing, and consistency of data, etc.) and are taken into consideration upon escalation to DoD Senior Leadership for potential interventions. DoD’s main objective is to maintain its target estimated audit remediation dates for each DoD-wide material weakness under the consideration of the Component-level material

---

**Appendix II: Comments from the Department of Defense**

---

weakness remediation effort. However, considerations to timeline adjustments are made at the Components' discretion.

**RECOMMENDATION 3:** The Under Secretary of Defense (Comptroller) should develop monitoring procedures to reasonably assure consistent and accurate support for tracking, recording, and reporting of target remediation dates presented in all component-level roadmaps when developing its DOD-wide roadmap.

**DoD RESPONSE:** Partially concur. The Under Secretary of Defense (Comptroller) has established the oversight and monitoring function to reasonably assure consistent and accurate support for tracking, and reporting Component-level target remediation dates through the Audit Roadmap Dashboard. The Audit Roadmap Dashboard considers source information, i.e., notices of findings and recommendations (NFRs) and corrective action plans (CAPs). These CAPs highlight DoD-wide and Component material weaknesses on target and those at risk of missing target remediation dates. The FIAR Committee, FGB, Property/IT Functional Councils, and DMAG meetings are leveraged to monitor and address Component's efforts to remediate identified audit deficiencies to include self-identified gaps, material weaknesses, and the SecDef Audit Priorities. However, we note that a Component's estimated remediation date may be adjusted for numerous reasons, to include an auditor's addition or modification of new conditions to existing NFRs.

**RECOMMENDATION 4:** The Under Secretary of Defense (Comptroller) should develop and implement procedures to analyze the feasibility of estimated target remediation dates included in the DOD-wide roadmap. Such procedures should include steps to reassess actions and adjust plans if the analysis shows that the estimated dates cannot be met.

**DoD RESPONSE:** Partially concur. The Under Secretary of Defense (Comptroller) has developed and performed the oversight and monitoring function based on Audit Roadmap dashboard to reasonable ensure the remediation dates are on target and track the remediation effort consistently and effectively. Throughout the audit fiscal year, the Under Secretary of Defense (Comptroller), in coordination with Components and applicable Offices, discusses and develops DoD-wide remediation effort and plan to analyze the feasibility of estimated target remediation dates documented in the DoD-wide audit roadmaps. If such remediation dates will not be met, the Under Secretary of Defense (Comptroller), in coordination with Components and applicable Offices, will adjust the plan with updated remediation dates and obtain approval in FIAR Governance Board meeting. The Under Secretary of Defense (Comptroller) will implement additional procedures to analyze the feasibility of the estimated target remediation dates included in the DoD-wide roadmap.

**RECOMMENDATION 5:** The Under Secretary of Defense (Comptroller) should issue additional guidance to components, including the military departments, for developing appropriate and supportable timelines in component-level roadmaps.

**DoD RESPONSE:** Concur. The Under Secretary of Defense (Comptroller) will issue the appropriate DoD guidance to specifically instruct that the Component-level audit roadmap include appropriate and supportable timelines.

---

# Appendix III: GAO Contact and Staff Acknowledgments

---

## GAO Contact

Asif A. Khan, (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov)

---

## Staff Acknowledgments

In addition to the contact named above, Roger Stoltz (Assistant Director), Tulsi Bhojwani (Analyst-in-Charge), Crystal Alfred, Pierre Kamga, Michael LaForge, Jason Kelly, and Anne Thomas made key contributions to this report.

---

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its [website](#) newly released reports, testimony, and correspondence. You can also [subscribe](#) to GAO's email updates to receive notification of newly posted products.

---

## Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <https://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

---

## Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).  
Subscribe to our [RSS Feeds](#) or [Email Updates](#). Listen to our [Podcasts](#).  
Visit GAO on the web at <https://www.gao.gov>.

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: <https://www.gao.gov/about/what-gao-does/fraudnet>

Automated answering system: (800) 424-5454 or (202) 512-7700

---

## Congressional Relations

A. Nicole Clowers, Managing Director, [ClowersA@gao.gov](mailto:ClowersA@gao.gov), (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

---

## Public Affairs

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548

---

## Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707  
U.S. Government Accountability Office, 441 G Street NW, Room 7814,  
Washington, DC 20548

